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October 14, 2005

California Energy Commission  
Docket Office  
Docket No. 04 IEP 1K  
1516 Ninth Street, MS-4  
Sacramento, CA 95814-5512

<b>DOCKET</b>
<b>04-IEP-1</b> <i>K</i>
DATE <b>OCT 14 2005</b>
RECD. <b>OCT 14 2005</b>

**RE: *Integrated Energy Policy Report*, Docket No. 04 IEP 1K**

Dear Commissioners:

On behalf of the Sempra Energy Utilities (SEU), attached are comments in response to the Commission's 2005 Committee Draft Integrated Energy Policy Report.

We appreciate the opportunity to participate in this important proceeding and look forward to continued work with Commissioners and staff to help California meet its energy and infrastructure needs.

Please feel free to call me at (916) 492-4244 if you have any questions regarding this submittal, or the SDG&E Case Manager, Joe Kloberdanz, at (858) 654-1771.

Yours sincerely,

***Bernie Orozco***

Attachments

**BEFORE THE CALIFORNIA ENERGY COMMISSION  
OF THE STATE OF CALIFORNIA**

In the Matter of:	)	
	)	
The Preparation of the 2005 Integrated	)	Docket 04-IEP-1K
Energy Policy Report (Energy Report)	)	
_____	)	

**COMMENTS OF  
SAN DIEGO GAS & ELECTRIC COMPANY AND  
SOUTHERN CALIFORNIA GAS COMPANY ON THE  
COMMITTEE DRAFT REPORT IN THE 2005  
INTEGRATED ENERGY POLICY REPORT PROCEEDING  
OF THE CALIFORNIA ENERGY COMMISSION**

**I. INTRODUCTION**

During 2005, the California Energy Commission (CEC) has undertaken extensive proceedings to address a wide range of energy issues important to California as part of the CEC's Integrated Energy Policy Report (IEPR) proceeding. In its Draft Committee Report, dated September 2005, the CEC raises legitimate concerns for the State of California regarding future energy prices, ensuring reliable supply, and developing adequate infrastructure to meet the State's growing energy needs. San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) appreciate the broad scope and hard work of the CEC throughout this undertaking and particularly recognize the dedication of the IEPR Committee and CEC Staff working on the Draft Report. SDG&E and SoCalGas, in addition to other utilities and stakeholders, contributed substantial analysis and data as part of this effort and have also participated in many of the IEPR hearings. Due to the breadth of the Draft Report, the Comments that follow will focus on those areas that should be revised before the Draft Report is considered and adopted by the full CEC at its November 16, 2005 Business Meeting.

Overall, SDG&E and SoCalGas urge the CEC to recognize that a balanced approach to solving the State's most vexing and critical resource and transmission planning issues will be essential to achieving adequate, reliable and affordable energy supplies for all Californians. Most would agree that today's pressing problems require additional supplies and the transmission needed to get those supplies to loads. Even in this simple statement is a requirement for balance and trade-offs, however. New generation, built far from load centers, will require new transmission. Existing supplies, denied access to market by transmission congestion, cannot address load needs. As a further illustration of the need to balance energy goals and proposed solutions, the Draft Report notes that

the State's energy needs are becoming "peakier" and that the State has an over-reliance on natural gas for a fuel source. At the same time, the Draft Report proposes a CO<sup>2</sup> emissions limit that can only be met by natural gas-fired, baseload plants that do not meet peak loads. This type of conflict highlights the need for balance in achieving the State's energy goals and for issuing a final report in this IEPR proceeding.

SDG&E also observes that at times the utilities receive more policy guidance and targets from regulators than can realistically be accommodated into their resource plans. Trying to simultaneously meet every goal, no matter how individually worthy, can result in greater than necessary resource additions at higher than necessary costs to consumers. Thus, policy guidance from this IEPR should come with the flexibility needed to allow those carrying out the policy to achieve the goals in a manner that balances meeting the goals with reasonable costs for consumers. In sum, achieving a goal one year later than planned at a lower long-term total cost to consumers should not be viewed as failure, but should be an acceptable plan.

## **II. SPECIFIC TOPIC AREAS ADDRESSED IN THE DRAFT REPORT**

### **A. Transportation Fuels (Chapter 2)**

The Draft Report (p. 29) recommends that a proceeding should be opened at the CPUC "to investigate how investor-owned utilities can best develop the equipment and infrastructure to fuel electric and natural gas vehicles as required by Public Utilities Code Sections 740.3, 740.8, and 451." Further development of natural gas refueling infrastructure, however, is only an issue for vehicles that require "public access" CNG refueling stations located over a geographically large area. These types of vehicles include taxis, airport shuttles, and commuter vehicles and account for, at most, 21% of all the natural gas used to fuel CNG vehicles in the SoCalGas and SDG&E service territories.<sup>1/</sup> Based on this data, SoCalGas and SDG&E believe that there is no need to open such a proceeding at the CPUC at this time.

In order to make alternate vehicle fuels, such as CNG, LNG, and "gas to liquid" diesel more cost competitive, SoCalGas and SDG&E suggest that the CEC adopt the following recommendation: "Encourage permitting, siting, and construction of LNG import terminals in North America to secure additional sources of natural gas for California." Securing additional supplies of natural gas are likely to reduce the cost and price volatility of natural gas. As a result, every application that uses natural gas, including alternate fuel vehicles, will become more competitive.

In addition, in order to make alternate vehicles fuels such as CNG and LNG more cost competitive, SoCalGas and SDG&E suggest that the CEC adopt the following recommendation: "Encourage the Federal government to eliminate the sunset date of September 30, 2009 and make permanent the 50 cent per gallon alternate fuel tax credit

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<sup>1/</sup> Percentage is based on natural gas consumption at SoCalGas "public access" stations observed in August, 2005.

set forth in Section 11113 of the Federal Highway Bill<sup>2/</sup> signed into law on August 10, 2005.” This tax credit will dramatically affect the economics of operating alternate fuel vehicles using CNG and LNG.

The Draft Report should also endorse including the 50 cents-per-gallon alternate fuel tax credit (set forth in Section 11113 of the Federal Highway Bill) in the economic analysis of alternate fuels shown in Table 1, “Petroleum Reduction and Benefits for Very High Petroleum Price Scenario,” of the Draft Report. This tax credit will take effect after September 30, 2006, and will dramatically affect the economics of operating alternate fuel vehicles using CNG and LNG.

## **B. Electricity Needs and Procurement Policies (Chapter 3)**

Throughout this process, SDG&E has provided detailed comments, in addition to substantial data, to CEC Staff. SDG&E commends CEC Staff for their dedication to this large effort. Some of the points discussed below were addressed in SDG&E’s earlier comments, but to the extent they have not been reflected in the Draft Report, SDG&E reiterates them here. For example, SDG&E continues to have concerns regarding how energy efficiency impacts are added to the forecast, which under the Staff’s current approach yields forecast results that are unrealistically low in the outer years.

SDG&E would also observe that while it understands that the Draft Report presents a “Statewide” perspective, it is important that individual organizations’ efforts and activities are not ignored in the Final Report. One example occurs in the Draft Report’s criticism (p. 47) regarding an alleged lack of long-term contracts being signed to get power plants built. SDG&E is an exception to that assertion: in the last three years, SDG&E has signed long-term contracts that will add over 2,000 MW of new resources. Nearly half of these megawatts are new power plants within the SDG&E load pocket to address reliability issues and reduce RMR costs; the remainder consists of long-term renewables contracts that contribute to SDG&E meeting its 20% renewables goal by 2010. Some of the projects that resulted from these contracts are operating today, and others are under construction and will begin delivering power before the summer of 2006. While 2,000 MW is small relative to the State as a whole, it represents about 50% of the peak load in the SDG&E service area. In short, these acquisitions achieve precisely the goals the IEPR envisions, such as the prompt and orderly development of new energy infrastructure for the State.

The Draft Report (p. 33) incorrectly states that the utilities are indifferent to growing natural gas dependence because gas prices are a pass through. This statement is wrong in at least two ways. First, the reliance on natural gas is a direct outcome of the State’s emissions policies, which result in only the cleanest fuels being used -- natural gas is that fuel. Also, policies proposed in this Draft Report regarding GHGs will likely create an even greater reliance on natural gas. Thus, the reliance on natural gas is a direct result of state level public policy, not utility “indifference.” Second, SDG&E manages its electric

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<sup>2/</sup> Formerly referred to as the “Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users” or SAFETEA-LU.

portfolio to maintain a price within a customer risk tolerance that has been defined by the CPUC. Managing the total cost to customers within this risk tolerance drives the utilities to take actions such as securing fixed price contracts and hedging fuel costs.

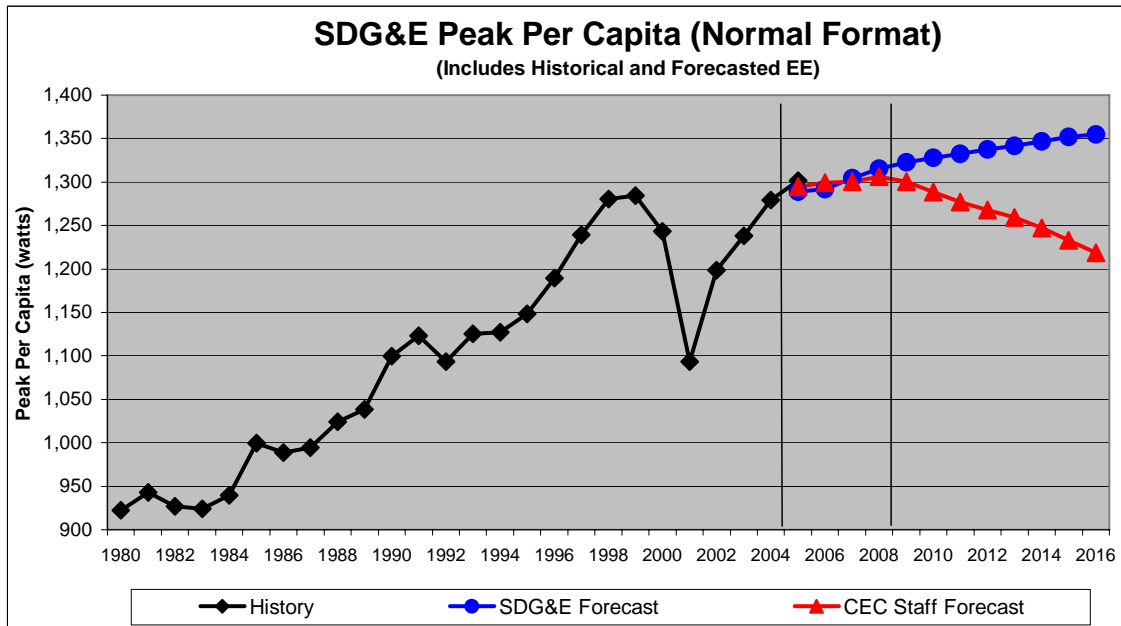
The Draft Report (p. 41) shows in Figure 10 retirements of 1588 MW for the time period of 2006-2008 in the SDG&E service area. This is not a realistic assumption because these units are required for grid reliability. The correct assumption is that the South Bay Power Plant will retire in 2009 after its lease expires. There is the potential for some MWs to shut down as new units come on-line, but any retirement assumptions the CEC publishes should be based on analysis that takes into consideration grid reliability needs and public pronouncements. Also, SDG&E has added the Miramar Power Plant of 46 MWs in 2005, which should be reflected in this figure (see SDG&E's July Comments). The CEC continues to leave this unit out of its tables because it did not go through the CEC licensing process.

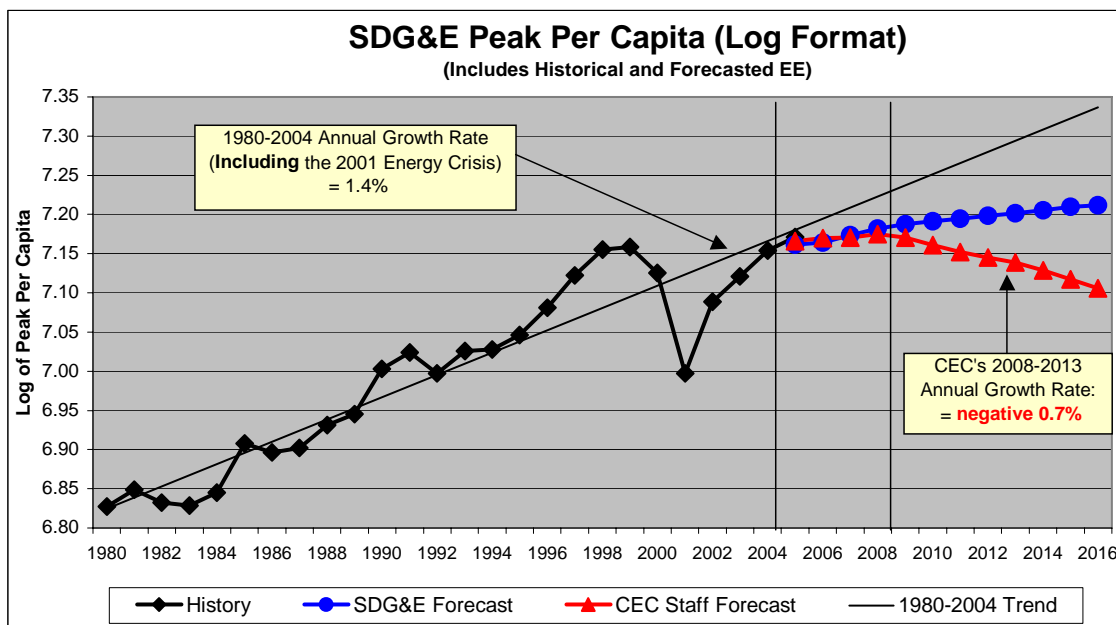
The Draft Report (p. 50) wrongly implies that all low capacity factor plants should be repowered to operate at higher capacity factors. Given the State's load shape, it needs some plants that will only operate at a low capacity factor. If one plant is repowered and operates at higher capacity factor, then another plant's capacity factor will fall because the total load being served has not changed. The fact that the CPUC has adopted a 15-17% reserve margin ensures that 15-17% of all the resources in the state would not operate at all in the average year. Thus, the state needs a large amount of capacity that will only operate at low capacity factors. Maintaining some of the existing low capacity factor plants is actually the lowest cost option.

The Draft Report (p. 52) does not accurately describe the utility planning and resource acquisition process, particularly how the least cost/best fit process is used. The Draft Report notes that least cost/best fit methods works best when looking at single assets, but that it is less valuable when examining the broader portfolio. While that may be true, this does not mean that the least cost/best fit approach used by the IOUs and encouraged by the CPUC is wrong. The Draft Report should clarify that the IOUs use the least cost/best fit approach only to choose between individual offers after the overall portfolio has been defined and approved by the CPUC. As such, the Draft Report seems to ignore all the analysis that occurs in advance of the actual solicitation that uses the least cost/best fit approach. As an example, SDG&E filed with the CPUC in 2003 the analysis of three different resource plan portfolio choices. These portfolios represented varying combinations of transmission and generation alternatives. This work discussed the risks and benefits of each, including uncertainty dealing with loads and prices for both natural gas and market prices (including changes in market prices from transmission additions). This work, along with other studies and the State's preferred loading order, resulted in the development of an overall portfolio mix. SDG&E is now in the process of evaluating the best options to meet that portfolio mix. So, the Draft Report should be corrected to state that least cost/best fit is used for evaluating the total cost impact of a specific resource option as compared to other resource options. Simply because each utility may describe it differently does not mean that the approach lacks merit and should be eliminated, as the Draft Report suggests.

Finally, SDG&E also finds the Draft Report's revised demand forecast in the outer years to be implausibly low and fundamentally incorrect for use in the resource planning process. Based on the comments SDG&E filed in this proceeding on July 14, 2005, Staff's short-term demand forecast (2004-2008) appears much improved, yet the long-term outlook (2009-2016) still remains unreasonable. The revised forecast presented by Staff includes committed energy efficiency (EE) programs in the short-term, but excludes any additional EE beyond 2008. Therefore, it is entirely inappropriate to compare the long-term outlook relative to history or to the short-term outlook as Staff has presented - its comparison is one of apples and oranges.

The following graphs demonstrate the fundamental concern with Staff's long-term demand forecast. As mentioned in the October 7th hearings, SDG&E experienced 1% annual growth in peak-per-capita during the 1980s, about 2% annual growth during the 1990s, and nearly 3% annual growth since the 2001 energy crisis. Despite the noticeable impacts of EE and standards over the past 25 years (which have accounted for more than a 20% reduction in peak demand), peak-per-capita still grew by over 40% during this historical period. The "log" graph more clearly displays the percentage growth concept, with peak-per-capita growing by roughly 1.4% per year over the past couple decades, even when including the drop in usage due to the 2001 energy crisis. In sharp contrast, Staff's long-term demand forecast reflects a 0.2% annual growth in peak-per-capita (excluding any new EE), or a **negative 0.7%** annual growth after the inclusion of the mandated EE goals, and this appears completely unreasonable and unsubstantiated.





SDG&E concurs with Staff's assessment that the energy efficiency assumptions embedded in SDG&E's load forecast are "aggressive,"<sup>3/</sup> and that they are 118% of the maximum achievable according to a consultant study (KEMA-Xenergy). However, it is very important to realize that incorporating more realistic EE estimates in the long-term would increase the peak demand forecast beyond the year 2008. The Commission is well aware of the problems of using a demand forecast that is unreasonably low in developing a resource plan. The Commission should therefore adopt SDG&E's long-term forecast, which is more plausible and fundamentally correct, to ensure that sufficient resources are in place when needed in the future.

## C. Demand Side Resources, Distributed Generation and Other Electricity Supplies (Chapter 4)

### 1. Demand Response

The Draft Report (p. 55) states that "Demand Response Programs...have failed to deliver savings targets established by state policy makers for each of the last three years." It goes on to recognize (p. 60) that "Both price-sensitive and reliability programs are important components of demand response." SDG&E agrees with the Draft Report that price-sensitive and reliability programs are important components of demand response. As such, SDG&E recommends that the State's adopted demand response targets should include both these components. More specifically, in the Advanced Metering, Dynamic Pricing and Demand Response proceeding at the CPUC (R.02-06-001), which is being facilitated by the CEC, workshops to address and reevaluate the DR targets are being considered. SDG&E supports the workshop process and believes the following must be

<sup>3/</sup> CEC Staff Report - Revised Investor-Owned Utility Resource Plan Summary Assessment – June 2005, pp. 16-3.

accomplished before realistic annual targets can be determined and imposed upon the IOUs: (1) Define the purpose and objective of the DR targets; (2) Direct parties to develop a standard methodology and necessary protocols for which to measure demand response; and (3) Align the annual targets with the rollout of AMI and dynamic pricing.

DR targets and goals, regardless of how they are established, measured and evaluated, must be realistic and achievable in order to be a legitimate component of long term resource planning. For the inclusion of DR in long term planning to be effective, only proven and demonstrated DR should be included.

The current DRP proceeding at the CPUC (A. 05-06-017) has recently been expanded by ALJ Ruling to include consideration of a cost-effectiveness evaluation of DR programs. The CPUC has not yet established a mechanism by which cost effectiveness of DR programs is calculated, nor how programs are evaluated.

The Draft Report (p. 61) states that "...The state needs to implement default dynamic rates for these large customers. For dynamic pricing to be most effective, however, the state needs to develop an advanced metering infrastructure for all customers." While SDG&E supports dynamic pricing and AMI, dynamic rates must be made available for all customers in order to achieve the levels of demand response that the state is seeking.

## **2. Distributed Generation and Cogeneration**

The Draft Report (p. 63) states that "The benefits of DG go far beyond generation. DG reduces the need for new additions to the state's transmission and distribution infrastructure and improves the efficiency of the system by reducing losses at peak delivery times." SDG&E does not believe that this finding is consistent with how the CPUC has ruled on this issue previously, and the appropriate corrections should be made to the Draft Report (see CPUC D.03-02-068, p. 18). The CPUC outlines in D.03-02-068 criteria DG must meet to allow the utility to defer capacity additions and avoid future cost. In addition, the CPUC states that "Finally, distributed generation must provide appropriate physical assurance to ensure a real load reduction on the facilities where expansion is deferred. There is potential that distributed generation installed to serve an onsite use will also provide some distribution system benefit, however, unless it meets the four planning criteria describe by SDG&E, such benefits will be incidental in nature." The Draft Report should track the CPUC's determinations in this area.

The Draft Report (p. 66) states that "Additionally, utilities should be required to offer CA ISO scheduling services at cost to their CHP customers." SDG&E believes that there are problems with this recommendation and that it should be rejected, at least at this time. Among other problems, SDG&E is concerned about additional costs and liabilities. A better approach would be to determine the party responsible for scheduling services and the cost of those services as a matter of contractual negotiation.

The Draft Report (p. 65) states that "By the end of 2006, the CPUC should require IOUs to buy, through standard offer contracts, all electricity from CHP plants in their service

territories as delivered at the utility's avoided cost, as determined by the CPUC in R.04-04-025." This broad recommendation should be rejected. As SDG&E has previously discussed, the standard offers were developed in an earlier time to stimulate the CHP (QF) industry. The QF industry is now a mature and thriving and should no longer require this type of "special treatment." The QFs should participate with all other resources in the utility resource acquisition process and being able to negotiate contracts, rather than being forced to sign a standard contract, ensures the best value for customers.

The Draft Report (p. 66) states that "By the end of 2006, the Energy Commission and CPUC should work collaboratively to translate this goal into yearly procurement targets for IOUs." The key to cost effective DG and CHP is not to provide additional subsidies for generators at other ratepayers' expense; rather, cost effective DG and CHP will be installed based on the cost-effectiveness and benefits provided by the technology. CHP units run when it is most beneficial to owners of these machines, whereas resource plans are oriented around a resource acquisition framework that can satisfy peak demand. Without utility control over utilizing CHP units, the contribution of this resource for procurement planning purposes will be negligible. The Draft Report recommendation on this point should be rejected.

The Draft Report (p. 67) states that "California should require utilities to design and construct distribution systems that are more DG and CHP compatible. These designs must take advantage of the system benefits DG and CHP can provide such as voltage support, system restoration/reliability, and intentional islanding." We agree to the extent that more advanced, cost-effective interconnection technologies and techniques would be beneficial. However, the existing distribution systems are DG compatible. Major modifications to existing distribution systems design may increase costs, which would then be borne by other ratepayers. Once again, cost effective DG and CHP should be evaluated and installed based on their inherent benefits and merits. DG and CHP units operate primarily to the benefit of their owners. It is not clear to what extent DG and CHP systems can provide to the distribution system.

The Draft Report (p. 67) states that "Initial research from the Energy Commission's Public Interest Energy Research (PIER) program shows that DG and CHP can provide quantifiable benefits to utility systems. In recently completed research on Silicon Valley Power's system, results show that a majority of Silicon Valley Power's customers could install DG that provides varying degrees of utility benefits." SDG&E has repeatedly commented on the DG PIER program referenced herein, and has enumerated the flaws of this particular research. Small DG units are typically either induction machines or inverters as opposed to the incorrect assumption of synchronous machines utilized in this theoretical study. Induction machines have no capability to provide VAR support and inverter based technologies typically are designed to operate at a fixed unity power factor, thereby rendering VAR support meaningless. The study was also conducted for a single fixed point in time, which limits the usefulness of the conclusions that were drawn. As SDG&E has maintained, DG units installed in the right place, at the right time, and with physical assurance can provide T&D benefits; however, to date no DG units installed on SDG&E's system have installed physical assurance schemes.

The Draft Report states that “The CPUC should require the utilities to implement comparable planning models to determine where DG and CHP is most beneficial from a systemic transmission and distribution perspective.” SDG&E already has adequate planning models that it utilizes to evaluate distributed energy resource (DER). Areas of the distribution and transmission system that need capacity upgrades are not static and solutions are explored with multiple options, including DER. The problem is that DG and CHP are typically not cost effective in general, yet are almost always more expensive than wires solutions to capacity needs. When SDG&E finds areas where DG may be cost effective, it explores these options and determines the lowest cost solution. If DG is the lowest cost solution, then SDG&E is authorized by the CPUC to procure that solution at a cost not to exceed the time value of money for avoiding the wire solution.

### **3. Other Electricity Supplies – Nuclear**

The Draft Report (p. 72) recommends that “some portion of the funds contributed by California ratepayers toward federal spent fuel disposal efforts should be returned to the state to defray ongoing costs of long-term on-site storage of spent fuel made necessary by the lack of a permanent disposal solution” (such as the DOE’s proposed Yucca Mountain project in Nevada). This issue is currently being addressed on a national level where Edison, on behalf of the SONGS owners, and many other US nuclear plant owners, are currently involved in litigation against the DOE for its failure to complete the Yucca Mountain facility on the schedule required by law. There is nothing further that the CEC can achieve towards this end by causing federal funds available for spent fuel disposal efforts to be returned to California ratepayers.

The CEC Draft Report (p. 72) recommends that “The state should evaluate long-term implications associated with the continuing accumulation of spent fuel at California’s operating plants...” On-site spent fuel storage and its related safety/security issues are the purview of the NRC, which has licensed and Edison has constructed, an Independent Spent Fuel Storage Facility (ISFSI) located on the SONGS site for the purpose of storing Unit 1 spent fuel until it is taken by the DOE for final disposal. The ISFSI will be expanded as needed to store Units 2&3 spent fuel, in compliance with NRC licensing criteria. No further action from the CEC is required.

The Draft Report (p. 73) states that “it is likely that IOU owners will seek to extend operating licenses at the units” and recommends that the State should “undertake a careful review of the costs and benefits of license extensions.” Again, license renewal is the purview of the NRC. If the SONGS owners seek and obtain license renewal for an additional 20 years beyond 2022 when the current license expires, the CPUC will have an opportunity to carefully review the costs and benefits of license renewal through cost recovery submissions by the IOU owners for SONGS. There is nothing further that the CEC should decide in the IEPR along these lines.

#### D. Transmission (Chapter 5)

SDG&E applauds the Draft Report's (pp. 86-87) unequivocal endorsement of the need for expeditious approval of SDG&E's proposed 500 kV Sunrise Powerlink project so that the residents of San Diego and all of California can begin realizing the numerous and substantial benefits this line will provide, such as improved access to renewable energy sources, reduced Reliability Must Run (RMR) and congestion costs, and improved reliability of California's transmission grid. SDG&E needs the CEC's continued support to ensure that the Sunrise Powerlink moves forward as quickly as possible. SDG&E plans to file its case in support of the need for the project before end of the year, and the environmental and routing showing in the second quarter of next year. SDG&E believes it is critical to have a decision on the need for the project by third quarter 2006 and an *approved* CPCN by the end of 2006 to ensure that the consumer benefits additional transmission will bring can begin as soon as possible. SDG&E is also undertaking a comprehensive and extensive public involvement process to get input *upfront* from stakeholders and customers on the route for the line.

SDG&E appreciates that the Draft Report (pp. 82-83) highlights the need for California to develop a cooperative and collaborative process for planning and licensing transmission – to bring together all the entities currently involved. At the same time, it is vital that this effort not result in more bureaucracy, more delay, or additional hurdles to getting transmission planned and built. It is imperative that whatever changes may be made to the process actually improve the state's ability to plan, license and deliver new transmission infrastructure and not compromise or delay the aggressive schedule for the Sunrise Powerlink. As the Draft Report emphasizes, this project must move forward “expeditiously” for all of the reasons the CEC has highlighted: to ensure grid reliability for SDG&E customers and the state, to provide access to renewable resources, and to deliver reduced energy costs to California consumers. In addition, consistent with the state's Energy Action Plan goals, SDG&E is committed to getting 20 percent of its electricity from renewable resources by 2010. SDG&E cannot meet that goal without this new line. In sum, SDG&E is deeply appreciative of the CEC's support for new transmission for the San Diego region – transmission that will benefit the entire State – and urges the CEC to continue to ensure that SDG&E's transmission request is swiftly processed through the licensing and regulatory milestones.

Finally, the Draft Report (p. 79) states that “SDG&E's transmission situation is so precarious that the loss of any single transmission line in the area can cause major interruptions.” This statement should be removed because it is incorrect. SDG&E meets all applicable transmission planning reliability criteria, including the loss of any single transmission line, although by 2010 it is projected that the Sunrise Powerlink will be needed to meet grid reliability. The addition of the Sunrise Powerlink will also provide additional flexibility in the operation of the SDG&E transmission system.

## **E. Renewables (Chapter 6)**

In the area of renewables, SDG&E now has under contract renewables to reach about 10% of its energy needs by 2010 (using SDG&E's forecast). Although this percentage still lags behind the other IOUs, it is a substantial gain for SDG&E. SDG&E does not agree with all the IEPR recommendations regarding modification of the RPS legislation, and would instead recommend that a first priority should be to improve the existing process before considering new legislative solutions. While SDG&E agrees there may be ways to speed up current RPS procurement processes, the Commission should realize that each project is unique, and it takes time to work through all of these details.

SDG&E does not agree that standard contracts are the solution. While SDG&E looks to standardize the contracts as much as possible, parties need to be able to negotiate a contract that meets each party's distinct needs. Each developer has unique needs and requirements, and a standardized contract will not address this issue. Additional time spent on attempting to develop a standard contract will only take away from time spent trying to achieve the goal. Nor does SDG&E agree with the recommendation to eliminate the Market Price Referent or "renewables only" solicitations.

## **F. The Challenges and Possibilities of Natural Gas (Chapter 7)**

The Draft Report (p. 110) states that "conditions affecting natural gas supply adequacy are highly variable, including weather in the short-term and greater reliance in the western U.S. on gas-fired plants in the long-term. As a result, California cannot determine with any precision the potential peak demand in the state under extreme conditions or the likelihood of such an extreme peak." This statement is untrue and should be deleted. In the Gas OIR proceedings at the CPUC, the utilities have provided a significant amount of data on demand under very extreme weather conditions and have assigned probabilities to those forecasts.

The Draft Report states (p. 110) that "The Energy Commission currently evaluates natural gas adequacy under average conditions and normal peak conditions. However, there is a need to evaluate potential responses to extreme conditions to avoid costly natural gas curtailments. The Energy Commission needs to devote resources to secure the necessary data and increase its analytical ability to ensure that the natural gas infrastructure will continue to be adequate in the future under all conditions." This paragraph should be deleted from the Draft Report, which should also take note of the CPUC's Gas OIR proceeding and its review of the State's gas infrastructure. In that proceeding, the CPUC will decide whether any evidence warrants a change in the current design criteria. Ensuring that natural gas infrastructure is sufficient to avoid any curtailment under any condition in the future is an unreasonably expensive policy objective. SoCalGas currently has in place design criteria to reduce core curtailments to less than a one-in-35-year event and currently designs its system to reduce curtailments to firm noncore load (load that has made a term commitment to utility service) to less than a one-in-ten-year event. Although noncore customers that opt for interruptible service may

face curtailments in the future (just as they would if they relied on interruptible transportation service on the interstate pipelines or for storage withdrawal services), SDG&E and SoCalGas have committed to construct facilities needed to meet firm service commitments. Significantly increasing these current design criteria would have a significant impact on customer rates.

The Draft Report (p. 113) states that “California needs to increase the diversity of its natural gas supply portfolio. Being at the end of a long interstate pipeline network, California must also have access to a variety of sources.” Immediately following that statement, the Draft Report should add: “A system of firm access rights in Southern California, as already exists in Northern California, would facilitate new supply projects and ensure customers have certainty that they can get all their gas from the upstream to their burner-tip without risks of prorationing.”

The Draft Report (p. 114) states that “Adding storage capacity in the Phoenix area could resolve this issue, but a proposed private storage capacity near Phoenix was never developed because of unfavorable cost recovery rules at the Federal Energy Regulatory Commission (FERC). To address this problem, the FERC is exploring the option of granting market-based rates to new independent storage developers that are not affiliated with existing pipelines. A less direct approach to resolve the issue would be to promote the development of a storage facility inside California directly tied to one of the pipelines coming from Arizona, but this is less desirable than adding storage in the Phoenix area and raises complex regulatory and contractual issues.” It is incorrect to assert that storage near Phoenix is more desirable than off-system storage that can be provided by SoCalGas’ storage fields if the CPUC were to approve off-system services for SoCalGas in the Gas OIR. (PG&E can currently provide such off-system service, but has limited storage capability.) Off-system services from SoCalGas would increase the probability that suppliers will develop their projects to Southern California because it would expand their potential markets, which would increase supply to Southern California. In addition, the revenues from off-system services would reduce rates on-system for SoCalGas — just as PG&E off-system revenues serve to reduce rates to its customers. Therefore, the last sentence in this paragraph should read: “Another approach to resolve the issue would be to allow SoCalGas’ storage fields, which are connected to pipelines from Arizona, to provide off-system services to these generators.”

## **G. Global Climate Change (Chapter 9)**

Although these particular comments on behalf of SDG&E and SoCalGas are with respect to Global Climate Change, there are some references to other Chapters in the Draft Report where there is a distinct connection with Global Climate Change. Consistent with the Draft Report, global climate change is, as the nomenclature clearly indicates, a worldwide issue that must be viewed from a macro level. Any attempts to assert mandatory and/or voluntary cost-effective GHG reduction programs must be achieved at a minimum from a regional level (e.g., western states). Additionally, most scientific and economic experts prefer a national program to maintain a balance between the benefits of GHG reductions and sustaining socio-economic progress.

The Draft Report correctly notes that the development of new energy supplies and infrastructure is increasingly critical to meeting California's energy needs. As such, it is particularly important that as policies and programs addressing Global Climate Change are developed that the State does not create a disincentive to enter into long-term commitments or to construct new generation due to the specter of a long-term financial obligation addressing Global Climate Change. This conflict between the need for additional generation and the need to address Global Climate Change issues must be appropriately resolved if progress is to be made in both areas.

SDG&E and SoCalGas are heartened that some mention (albeit as a minority view of the Climate Change Advisory Committee) was included in the Draft Report with respect to how a Greenhouse Gas (GHG) reduction program should be developed. SDG&E and SoCalGas continue to believe that for a GHG reduction program to be successful yet not create disincentives to additional generation resources that it must be a broad based program. A program unique to California alone (particularly if only addressing electric utilities) would be neither efficient nor best serve the needs of California.

Any GHG reduction program must include at a minimum multiple sectors of the California economy including mobile sources. It also must be done with or in concert with at least the western region states. An even broader program where California could take credit for actions taken elsewhere would certainly be more effective and efficient in addressing Global Climate Change. As noted in the Draft Report Executive Summary:

“California continues to be a leader in its efficient use of electricity. While energy use per person in the rest of the nation has increased by 45 percent over the last 30 years California's per capita use has remained relatively flat as a result of the state's energy efficiency measures.”

While continued emphasis on additional energy efficiency in California is a given, it also must be recognized that given the above statistic some of the more cost-effective energy efficiency measures that will also help reduce Global Climate Change impacts lie outside of California.

The Draft Report recommends a “top-down” statewide inventory on GHG emissions and support steps to evaluate the need for a mandatory reporting system. SDG&E and SoCalGas support a uniform and comprehensive GHG emissions inventory program. An effective and successful cap and trade program relies heavily on the ability to accurately assess GHG emissions and their source and helps to establish reasonable and cost-effective starting baseline data.

SDG&E and SoCalGas agree with the Commission's recommendation to increase emphasis on energy efficiency programs that provide peak savings. However, it is also important that the Commission support programs that produce energy savings as these can have the greatest positive impact on both the economic costs of electric energy borne by all of California along with contributing to GHG reductions. As noted in the Draft

Report, California's water infrastructure accounts for 20% of the state's electricity consumption. Therefore, it is appropriate that there be an emphasis on energy efficiency programs for this unique sector.

SDG&E and SoCalGas also agree with the Commission's strong support for natural gas efficiency programs and natural gas efficiency research. These efforts can have a positive impact on both the economic costs of natural gas borne by all of California along with contributing to GHG reductions. Likewise, where economic, the increased use of Combined Heat and Power (CHP) systems in California can have positive benefits for energy supply along with contributing to GHG reductions.

Finally, the Draft Report proposes that "any GHG performance standard for Utility procurement [should] be set no lower than levels achieved by a new combined cycle natural gas turbine." This recommendation creates a number of concerns that need to be fully studied and debated. These include but are not limited to: impact on adding needed peaking capacity that will likely be from simple cycle resources; impact on biogas or biomass projects that cannot meet such a standard; the impact on the state's reliance on natural gas given this is the only fuel with a proven technology that can meet this point; potential impact on long-term contracting to the extent this is only applied to long-term procurement; and impact on customers costs in California as compared to surrounding Western states.

LD2D-#172669-V1-04-IEP-01D